Minimum Wage Review Committee

Report & Recommendation

March 2005

March 15, 2005

Kerry Morash
Minister of Nova Scotia Environment and Labour
5151 Terminal Road, 6th Floor
Halifax, Nova Scotia
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The Honorable Kerry Morash:

On October 30, 2004 Government approved legislation to establish a Minimum Wage Review Committee, and we are the members of the Committee: Rick Clarke, President of the Federation of Labour; Tom Patterson, past Executive Director of the Nova Scotia Nurses' Union; Sandra Rodd, President of S.J. Rodd Trading Limited; and Steve MacPherson, General Manager of Jack Astor's.

The function of the Committee is to conduct an annual review of the minimum wage and submit to the Minister a report containing the recommendations of the Committee.

The Committee conducted the review by considering the following: economic theory; economic conditions and the impact of raising wages; Statistics Canada data such as Consumer Price Index, Average Industrial Wage, Low Income Cut Off, and a profile of minimum wage workers; trends in other jurisdictions; the changing value of minimum wage; employers' fixed cost increases, and submissions from employers and employees.

After careful consideration of the above, the Committee recommends the following increases to the minimum wage:

$6.80 October 1, 2005
$7.15 April 1, 2006

It has been a pleasure conducting the review for the Department of Environment and Labour, and we look forward to your response.

Respectfully submitted by,

Rick Clarke

Steve MacPherson

Tom Patterson

Sandra Rodd

Background

In Nova Scotia, workers rights are protected by the province's Labour Standards Code. The Code provides direction to employers and employees on a wide range of topics, including the minimum wage.

In October 2003, new laws were put in place to establish a Minimum Wage Review Committee. The Committee is composed of equal numbers of employer and employee representatives appointed by the Minister. The Code requires the Committee to conduct an annual review of the minimum wage and prepare a Report to the Minister containing the recommendations of the Committee. Thirty days after the Minister receives the Report it will be made public, and within 60 days of receiving the Report the Minister will publish a response.

Traditionally, the minimum wage rate has been set approximately six months in advance, to ensure that business have time to plan and budget for the proposed increases. The rate may be set for one year, or more or less, which allows the Minimum Wage Review Committee to be more responsive to emerging issues. The Committee could also utilize the approach of several other provinces, looking ahead at economic indicators and establishing scheduled increases for two or three years.

On October 1, 2003 the minimum wage was increased to $6.25. Six months later, on April 1, 2004 the minimum wage increased to $6.50. [1] At the time of writing this Report, it has been approximately 12 months since the last minimum wage increase. Since it is important to give employers at least six months notice, it will be well beyond 18 months before employees receive the next increase.

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[1] Minimum Wage rates for other provinces are included in the Report as Appendix "A".

Principles to Consider

Three important principles to consider when setting the minimum wage are:

maintaining fairness for the lowest paid members of our workforce;

recognizing minimum wage and cost of living trends; and

balancing the issues relative to economic competitiveness for industry.

Maintaining fairness for the lowest paid members of our workforce

The purpose of minimum wage legislation is to guarantee a minimum standard of pay. Traditionally, minimum wage legislation forms part of the response to the problem of low pay, and was developed to protect the most vulnerable workers.

In 2004, 21,900 employees worked for minimum wage in Nova Scotia. This represents 5.6% of the workforce in Nova Scotia. As important as a minimum wage increase is for those who are paid at the lowest level, an increase may be equally important to many more working Nova Scotians because the minimum wage acts as a benchmark wage. Employers, notably other low wage employers, tend to measure their pay scales against the minimum wage. Generally, as minimum wages rises so do other wage rates. Thus, in addition to 21, 900 minimum wage earners, 16,500 employees work for wages between minimum wage and $7.00 per hour, and another 21,100 earn between $7 and $8 per hour. In total, 31.9% of the workforce who earn between minimum wage and $8 per hour may be impacted by a minimum wage increase.

Committee members agree that minium wage alone cannot fix the problems of the working poor. The cost of necessities and utilities, tax on these items, an increase in precarious employment (casual, part-time, self-employment), lack of well paid jobs, and the high cost of post-secondary education contribute to the concerns of the working poor. In addition to minimum wage, other strategies should help alleviate poverty: increases in the basic personal income tax exemption puts more money in the pockets of low income earners; education subsidies; affordable housing; and child care.

Although the Committee recognizes that other tools are also effective to combat poverty, the only tool within the Committee's mandate is the minimum wage. In order for minimum wage alone to effectively address poverty it would need to exceed the national average or perhaps even the highest minimum wage in the country. It is obvious that a committed and multi-focused approach is required to effectively combat poverty, similar to the approach taken by government with respect to deficit and debt reduction.

Recognizing minimum wage and cost of living trends

Minimum wage trends

Minimum wage is a significant issue in Nova Scotia because so many of its workers are employed at minimum wage or at rates very close to minimum wage. When recommending the minimum wage rate, the Committee considered, among other things, minimum wage rates across the country and cost of living trends within Nova Scotia.

Appendix"A" shows the current minimum wage, projected increases, and the rate of change across the country between 2002 and 2007.

The following chart illustrates changes to the minimum wage in the Atlantic region:

	2002	2003	2004	2005	2006	2007
New Brunswick	$6.00	$6.00	$6.20	$6.30	$6.40	$6.70
Newfoundland	$5.75 $6.00	$6.00	$6.00	$6.25	$6.50 $6.75	$7.00
Nova Scotia	$6.00	$6.35	$6.50	$6.80*	$7.15*	
Prince Edward Island	$6.00	$6.35	$6.50	$6.80		

* recommended increase

Based upon this information, between 2004 and 2007 Newfoundland will raise the minimum wage from $6.00 per hour to $7.00. In Prince Edward Island the minimum wage is currently $6.80, ahead of Nova Scotia. And, beginning January 1, 2005 New Brunswick increased the minimum wage from $6.00 per hour to $6.30, and has projected increases through to 2007, at which time the wage will be $6.70

In recent years, Nova Scotia's minimum wage has kept pace with Prince Edward Island and has been slightly ahead of New Brunswick and Newfoundland. Assuming that no further increases in the minimum wage occur in the Atlantic provinces in the next year, the Nova Scotia rate will be the highest in the Atlantic region, as the Committee believes it should be, and it will be closer to the national average. By June 1, 2005 the national average minimum wage, including

Alberta[2], will be $7.19 per hour.

Cost of living & the Consumer Price Index

The next consideration is the cost of living in Nova Scotia. Cost of living analysis requires looking at, among other things, the following two measures: Consumer Price Index (CPI), and Low Income Cut Off (LICO), otherwise known as the poverty line.

The Consumer Price Index is a measure of the level of inflation, and inflation is a change in the value of money. CPI measures how much the price of a basket of consumer goods have changed over a given period of time. The major components of the basket are: food, shelter, household operations and furnishings, clothing and footwear, transportation, health and personal care, recreation, education and reading, alcoholic beverages and tobacco products. One method of determining minimum wage is to index it to CPI. Indexing is a system of economic control in which certain variables (as wages and interest) are tied to the cost of living index so that both rise and fall at the same rate. When this happens, the detrimental effect of inflation is, in theory, reduced.

In Nova Scotia, the annual percentage change in the CPI between 2000 and 2004 is as follows:

Year	**% change**
2000	3.5%
2001	1.8%
2002	3%
2003	3.4%
2004	1.8%
2005 - 2007	2%*

* Department of Finance projects an average increase of 2% annually

[2] Alberta's minimum wage is increasing from $5.90 per hour to $7.00. Employers will be consulted on the implementation of the new minimum wage and can recommend whether the increase should be introduced all at once or in stages.

This means that in 2004 it cost consumers 1.8% more to purchase the same basket of necessary goods than it did in 2003. Tying CPI to minimum wage means that in order to purchase the same basket of goods each year the minimum wage should increase by the same percentage as the CPI. Information provided by Human Resources and Skills Development Canada, Bank of Canada - Inflation Calculator, indicates that between 2003 and the present, the minium wage in Nova Scotia has almost caught up with inflation, and the same has held true since 1965 (See Appendix "B"). However, during the same period, the average worker's earnings increased by nearly 50% above the rate of inflation. Therefore, the minimum wage worker lost an enormous amount of purchasing power relative to most other workers in Nova Scotia.

If the rate of inflation between 2000-2007 ranges between 1.8% and 3.5%, and minimum wage has almost caught up with inflation, then why is the minimum wage being increased by a higher percentage than the rate of inflation? In order to determine a fair minimum level of pay the Committee considered the Low Income Cut Off.

Low Income Cut Off

The low income cut off is the best known measure of poverty. It is established by using data from the Survey of Household Spending which measures the income required to pay for the essential basket of goods and services which includes food, clothing, shelter, transportation, health care and personal care, recreation, and education. The idea is that if a family spends more than approximately one half of it's income on food, clothing and shelter the family is living under difficult circumstances, and has little money left over to purchase transportation, health care and personal care, recreation, education, and so forth.

The low income cut off for a single person living in Halifax in 2002 (the most recent year for which data is available) was $19,261 before-tax . Assuming 2080 hours of work annually (40 hours per week for 52 weeks), an employee needs to earn $9.26 per hour to meet the before-tax low income cut off in metro. Statistics Canada distinguishes between urban and rural areas because the poverty line is lower in rural areas. In rural Nova Scotia the cut off may be as low as $13,311 for an individual which means that the hourly rate of pay should be $6.39 in order to meet the poverty line.[3] The average cut off is $16,286 which means that the average hourly rate of pay ought to have been $7.83 in 2002.

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[3] These calculations do not take into account the refundable GST credit, Canada Child Tax Benefit, and Nova Scotia Child Tax Benefit for low income individuals and families.

Balancing issues relative to economic competitiveness

The purpose of exploring economic competitiveness is to determine, from a Labour Standards perspective, the cost of doing business in Nova Scotia. This means statutory payroll costs which include: vacation pay, statutory holidays, Employment Insurance, Canada Pension Plan, Workers' Compensation, and other miscellaneous categories, such as payroll taxes.

All jurisdiction pay the same rates for Canada Pension Plan and Employment Insurance. Canada Pension Plan represents 4.95% of payroll and Employment Insurance is 2.77%. Although Workers' Compensation premiums are higher than the national average, Nova Scotia has the lowest number of statutory holidays. The conclusion is that the total statutory payroll cost in Nova Scotia is among the lowest in the country.

The Committee recognizes that many small businesses pay minimum wage, or close to the minimum, and that an aggressive increase in the minimum wage may not be readily absorbed. However, not all businesses that pay the minimum wage, or close to the minimum wage, are really small businesses. In fact, they are some of the largest and most profitable companies in the world with operations or franchises in Nova Scotia. These companies are choosing to pay minimum wages to their employees. The Canadian Centre for Policy Alternatives state that a low minimum wage allows employers to depend upon low wages to maintain their economic viability rather than increase productivity though investing in training and modern equipment and technology. Higher minimum wages contribute to increased worker satisfaction and commitment to their job and to their employer.

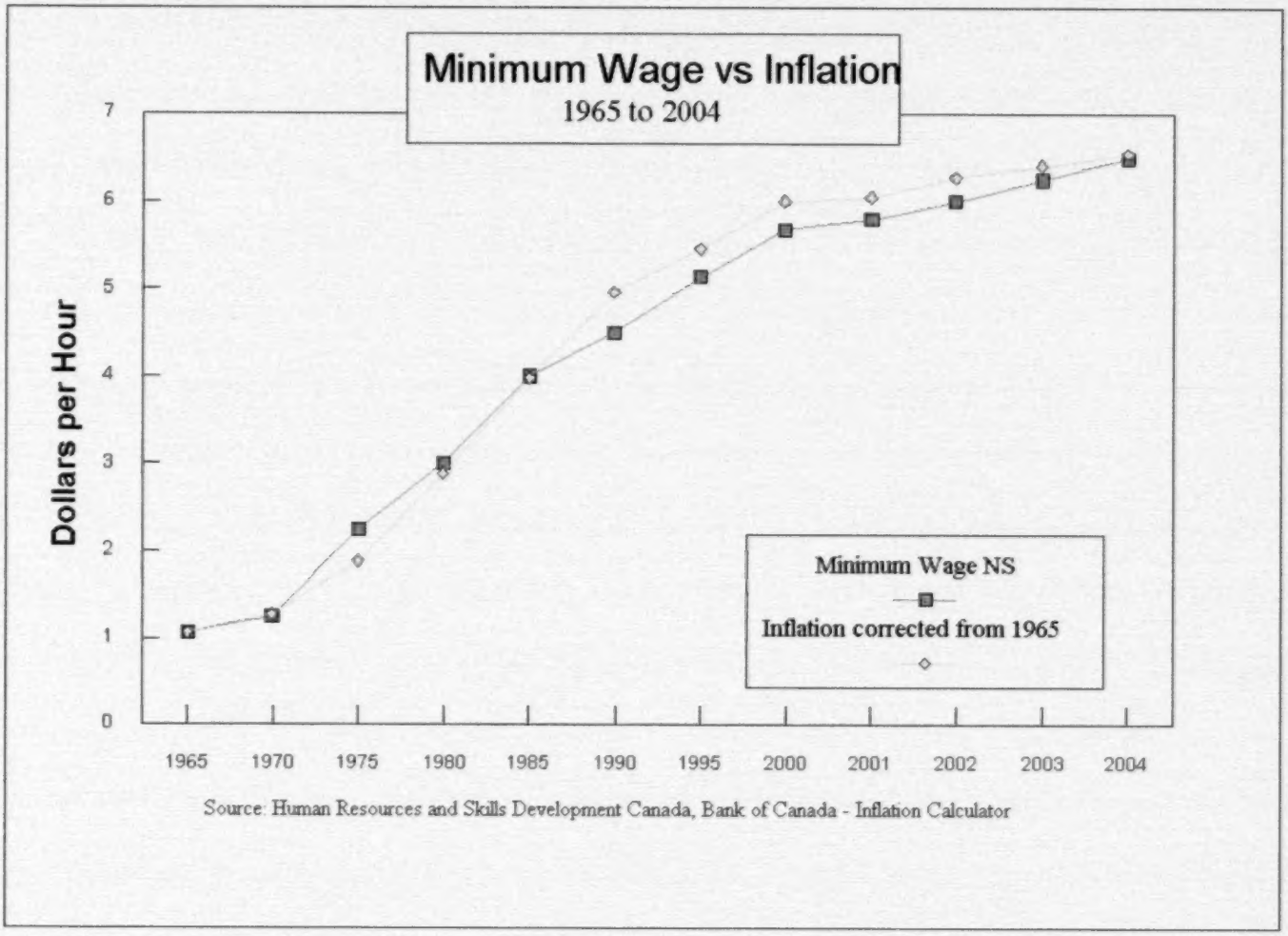
The cost of doing business in Nova Scotia, from a labour standards perspective, is lower than most other jurisdictions therefore an increase in the minimum wage will not put Nova Scotia at a competitive disadvantage.

Appendix "A"

Jurisdiction	2002	2003	2004	2005	2006	2007
Alberta			**$5.90** since 01-Oct-99	**$7.00** date to be announced 18.6%		
British Columbia				**$8.00** Since 01-Nov-01		
Manitoba	**$6.50**	**$6.75** 3.8%		**$7.00** 01-Apr-04 3.7%		
New Brunswick	**$6.00**		**$6.20** 01-Jan-04 3.3%	**$6.30** 01-Jan-05 1.6%	**$6.40** 01-Jan-06 1.58%	**$6.70** 01-Jan-07 4.68%
Newfoundland	**$5.75** $6.00 4.3%		**$6.00** 01-Nov-02	**$6.25** 01-June-05 4.16%	**$6.50** 01-Jan-06 4% **$6.75** 01-June-06 3.8%	**$7.00** 01-Jan-07 3.7%
Northwest Territories		**$8.25**		**$8.25** 28-Dec-03		
Nova Scotia	**$6.00**	**$6.25** 4.16%		**$6.50** 01-Apr-04 3.84% **recommended** **$6.80** 01-10-05 4.6%	**recommended** **$7.15** 01-04-06 5.14%	
Nunavut		**$8.50**		**$8.50** Since 03-Mar-03		

Jurisdiction	2002	2003	2004	2005	2006	2007
Ontario			**$7.15** 01-Feb-04	**$7.45** 01-Feb-05 4.19%	**$7.75** 01-Feb-06 4%	**$8.00** 01-Feb-07 3.2%
Prince Edward Island	**$6.00**	**$6.25** 4.16%	**$6.50** 01-Jan-04 4%	**$6.80** 01-Jan-05 4.6%		
Quebec	**$7.20**	**$7.30** 1.38%	**$7.45** 01-May-04 2%	**$7.60** 01-May-05 2%		
Saskatchewan	**$6.35** **$6.65** 4.7%			**$6.65** 01-Nov-02		
Yukon				**$7.20** 01-Oct-98		

Appendix "B"


Minimum Wage vs Inflation
1965 to 2004
Dollars per Hour
0
1
2
3
4
5
6
7
1965
1970
1975
1980
1985
1990
1995
2000
2001
2002
2003
2004
Minimum Wage NS
Inflation corrected from 1965
Source: Human Resources and Skills Development Canada, Bank of Canada - Inflation Calculator